

Executive Stock Ownership Guidelines

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Executive Ownership Guidelines for Mid- and Small-Cap Companies

This survey reviews the stock ownership requirements for executives at mid- and small-sized companies. While many surveys have studied the executive compensation practices of publicly traded companies, the vast majority focus their attention exclusively on the largest (Fortune 100-sized) companies. It is assumed that smaller companies' practices are effectively the same. In order to test this assumption, Compensation Strategies, Inc. examined over 700 mid- to small-sized companies to better understand their practices regarding stock ownership guidelines for executive officers. We found that the requirements for these smaller companies are generally lower than those for larger companies.

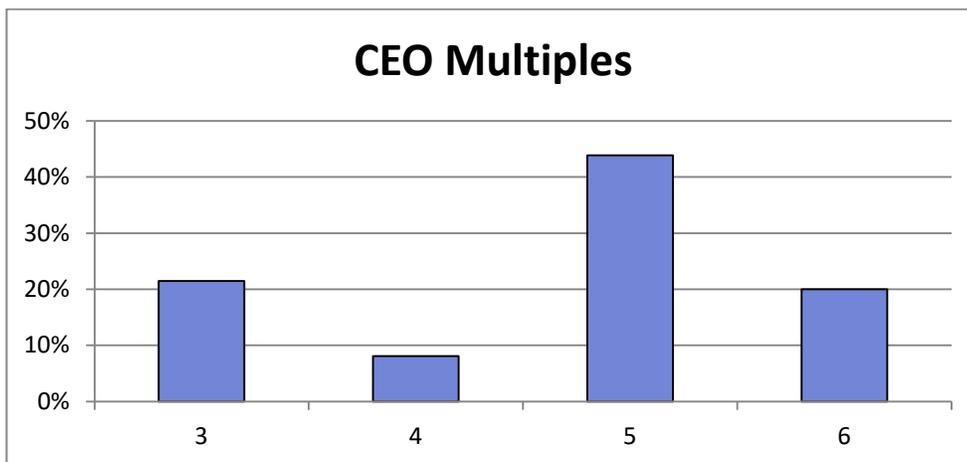
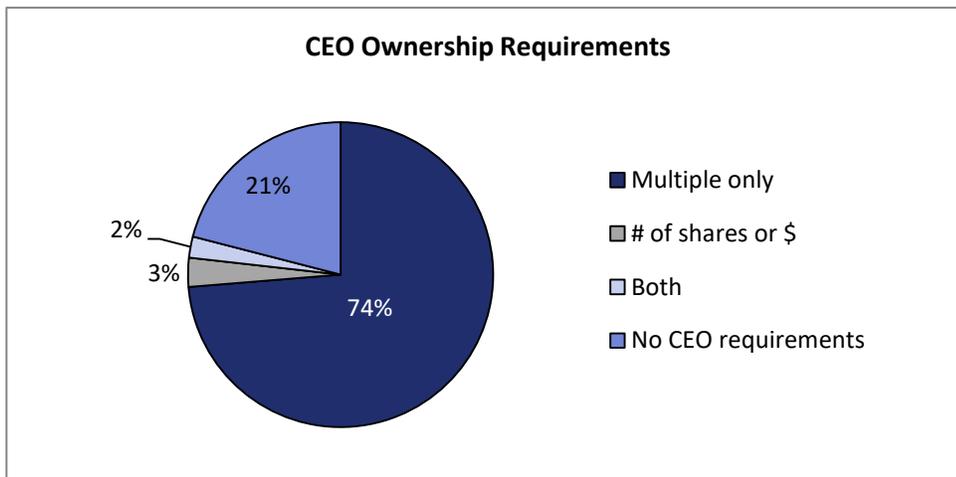
The companies we studied were drawn from the S&P MidCap 400[®] and the S&P SmallCap 600[®], and did not include utilities, financial corporations, or limited partnerships.

Executive Summary:

- 79% of companies have ownership guidelines for their CEO, and 75% have ownership guidelines for their other NEOs.
- CEOs are required to hold 5x their base salary in equity (at the median). This is less than the 6x salary required by Fortune 100 companies.
- Other NEOs are typically required to hold between 2x and 3x their salary, which is less than the 3x – 5x salary required by Fortune 100 companies.
- Slightly over half (55%) require that executives meet the guidelines within a certain timeframe, the median of which is 5 years.
- 29% impose holding requirements until the guidelines are met.
- Very few companies (<5%) impose holding requirements on executives who already meet the guidelines.

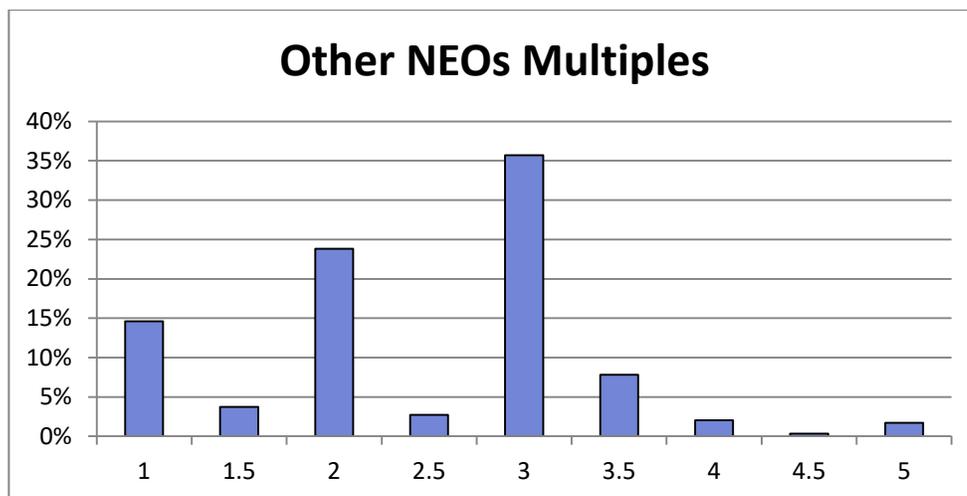
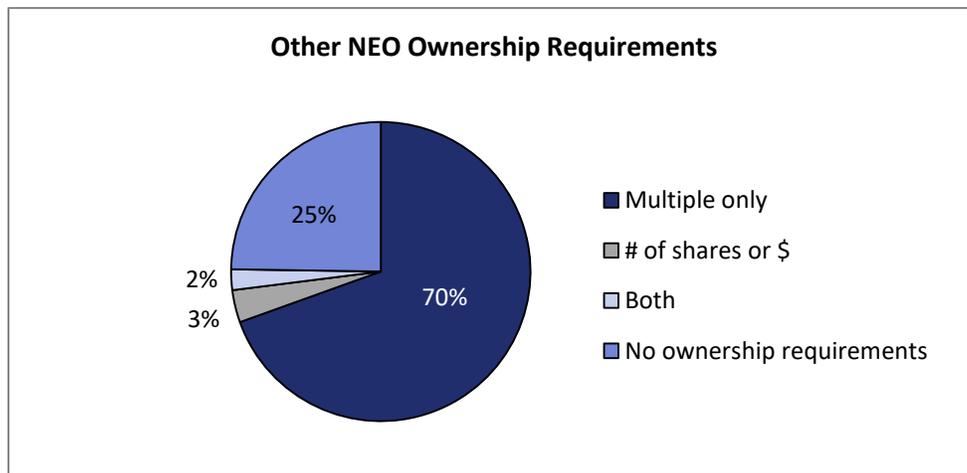
CEO Ownership Multiples:

- For those companies that utilize a multiple of base salary, the median and most common multiples are both 5×; the average is 4.67×.
- 527 companies (74%) express the ownership requirement exclusively as a multiple of base salary.
- 22 companies (3%) express the ownership requirement for CEOs exclusively as a number of shares (or, rarely, a dollar value).
- 16 companies (2%) use both, typically stating that the lower value was the requirement.



Other NEO Ownership Multiples:

- For those companies that utilize a multiple of base salary, the median is 2.5 \times , the most common multiple is 3 \times , and the average is 2.38 \times .
- 497 companies (70%) express the ownership requirement exclusively as a multiple of base salary.
- 25 companies (3%) express the ownership requirement for NEOs exclusively as a number of shares (or, rarely, a dollar value).
- 16 companies (2%) use both, typically stating that the lower value was the requirement.



Other Observations:

- 55% of companies require their executives to meet the requirements within a certain timeframe.
- The average time requirement is 4.79 years; the median and most common time requirements are both 5 years.
- 29% of companies have retention requirements for executives who haven't yet met the ownership guidelines.
- The average required retention ratio is 66%; the median and most common retention ratios are both 50%.
- Only 19 companies (3%) have holding requirements for executives who have already met the ownership guidelines.

Mid-Cap vs. Small-Cap:

We found that the ownership requirements at mid-cap companies are generally higher than those at small-cap companies.

	CEOs			Other NEOs		
	Have Requirements	Median	Average	Have Requirements	Median	Average
Mid-Cap	88%	5×	5.05×	83%	3×	2.58×
Small-Cap	73%	5×	4.39×	69%	2×	2.21×

There was no significant difference in time requirements between the two groups. About 55% of each group had such requirements, and the median in both cases was 5 years.

Sector Differences:

When broken down by sector, the median requirement for CEOs is 5× salary for every sector except Healthcare (which is at 4× salary). A larger portion of the Healthcare group is in the SmallCap 600[®] as compared to the remaining sectors (66% versus 59%), which may explain, at least in part, the lower median.

Consumer Discretionary: 152 Companies

- *CEOs: 80% have requirements, with a median of 5× salary.*
- *Other NEOs: 78% have requirements, with a median of 2× salary.*
- *82 have time requirements, with a median of 5 years.*

Consumer Staples: 30 Companies

- *CEOs: 73% have requirements, with a median of 5× salary.*
- *Other NEOs: 70% have requirements, with a median of 3× salary.*
- *12 have time requirements, with a median of 5 years.*

Energy: 50 Companies

- *CEOs: 80% have requirements, with a median of 5× salary.*
- *Other NEOs: 78% have requirements, with a median of 3× salary.*
- *31 have time requirements, with a median of 5 years.*

Healthcare: 97 Companies

- *CEOs: 60% have requirements, with a median of 4× salary.*
- *Other NEOs: 63% have requirements, with a median of 2× salary.*
- *46 have time requirements, with a median of 5 years.*

Industrials: 155 Companies

- *CEOs: 85% have requirements, with a median of 5× salary.*
- *Other NEOs: 81% have requirements, with a median of 3× salary.*
- *89 have time requirements, with a median of 5 years.*

Information Technology: 159 Companies

- *CEOs: 78% have requirements, with a median of 5× salary.*
- *Other NEOs: 67% have requirements, with a median of 2× salary.*
- *86 have time requirements, with a median of 5 years.*

Materials: 65 Companies

- *CEOs: 89% have requirements, with a median of 5× salary.*
- *Other NEOs: 89% have requirements, with a median of 3× salary.*
- *46 have time requirements, with a median of 5 years.*

Compensation Strategies Inc. is consulting firm based in the Chicago metropolitan area which focuses solely on executive and board pay. Our extensive experience allows us to bring the practical knowledge of what does and does not work in specific circumstances. We do not simply apply current "best practices" to all situations. Instead, we assist clients with the development of alternatives to meet their unique needs. Our approach emphasizes program designs that are creative but also workable for a particular client.

We can be found on the web at www.compensationstrategies.com

